

ANNUAL TASK ORDER
PROGRESS AND
COST REPORT

JULY 26, 2005 TO
JULY 25, 2006

LOCAL GOVERNMENT AND
DECENTRALIZATION IN
ALBANIA PROGRAM

Prepared for



Albania Local Government Program
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TABLE OF CONTENTS

Background.....	1
Highlights	1
Progress of Major Activities.....	2
Lessons Learned from Year 2.....	24
Suggested Steps to Improve Activity Performance & Impact	28
Monitoring and Evaluation	29
Administration	31
Deliverables and Reports.....	32
Problems or Delays Affecting the Task Order Performance.....	32
Specific Action Requested	33
Cost Report	34

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LOCAL GOVERNMENT AND DECENTRALIZATION IN ALBANIA PROGRAM (LGDA)

BACKGROUND

In July 2004, United States Agency for International Development (USAID) contracted the Urban Institute (UI) to implement a three-year local government project in Albania. This project will assist the Government of Albania in implementation of its decentralization strategy and in building capacity of local government units to fulfill their newly mandated responsibilities. It will also support association development and focus on increasing citizen participation in targeted units of local government. The project builds on UI's two previous projects in Albania that fostered the environment for ongoing reforms.

Task Order No.:	EEU-I-00-99-00015-00, TO No. 813
Date of Issuance:	July 26, 2004
Amount Obligated Under Task Order:	\$2,700,000
Total Potential Task Order Amount:	\$4,099,995
Dollars Expended To-date:	\$2,597,104
Key Personnel:	Barry Reed, Chief of Party, 069.208-4957 barry@lgda-al.org

HIGHLIGHTS

- Major new Decentralization Reforms enacted in 2006 State Budget
 - i. Increased local authority through changes in treasury system and budget reporting
 - ii. New unconditional transfer pool for small investments
 - iii. Creation of a transparent and fair competitive grants scheme for larger investment projects
- Demonstrable progress made in improving the delivery of local services in target cities
- Expansion of programming and results in non-target cities
- Improvements made in administrative procedures in target cities
- Results of Albanian National Local Government Survey released and widely disseminated

PROGRESS OF MAJOR ACTIVITIES

LGDA contains two major thematic components represented by strengthening municipal capacity and accountability and fiscal and administrative decentralization reforms. The approved workplan reflected activities designed to work in both components.

Sub IR 3.1: Fiscal and Administrative Authorities Effectively Decentralized

Focus on Reforms That Expand Local Discretionary Authority

Decentralization Reforms

Work under this activity addressed the pending decentralization reforms included in the National Decentralization Strategy and local government legislation of year 2000:

1. Developing rules and procedures to implement a truly autonomous local budget process
2. Providing greater control to local authorities over the funding for investment
3. Completing the decentralization of authority and responsibility for water sector
4. Establishing clear rules and procedures governing delegated functions in the area of education

Working group meetings on Budget Rules and Reporting and Capital Investments started in summer 2005 and continued until October 2005. These activities were closely linked to the MTBP and preparation of the draft 2006 State Budget. The working groups established for these purposes looked at the relationship of the state budget and local budgets, ways to improve recording and reporting of local financial data as well as developing methods for allocating objectively and transparently funding from the State budget for capital investment to individual local governments. The recommendations from these WG meetings, as well as the ongoing issues of transferring water systems to LG units, expanding local fiscal authority, and possibly increasing the transfer pool for 2006 became the main topics of the Policy Dialog activity. The activity was attended by 82 participants from central and local government and other key stakeholders.

The Policy Dialog had outstanding results. At the end of the day, the group reached a consensus on the following important issues:

- Local Budget
 - Ensure that the old law 7776 is repealed
 - Set the local government fiscal year as Jan 1 – Dec 31
 - Remove the requirement of submitting a draft budget in August
 - Instruct Treasury to develop a unified account for local government revenues (including unconditional transfer)
 - Simplify Treasury procedures to remove any Treasury control over local government expenditures
 - Improve budget classifications to make it easier to understand government activities and budget
- Capital Investments



- Develop unconditional transfer pool for small capital investments previously budgeted through State budget (including formula to make up for past disparities in this funding)
 - Enable financing of medium-to-large projects through a competitive grant process.
- Water
 - Conclude the decentralization of water (i.e. transfer of assets and systems to local governments) by the end of 2006
 - Guarantee to continue operating subsidy and budget for all systems (perhaps with 4 or 5 year phase out) based on the actual need of each system
 - Prohibit discrimination against systems already transferred
 - Encourage *voluntary* inter-governmental cooperation to capture economies of scale (the government may provide financial incentives to this end)
 - Stress better revenue collection and tariffs that are reasonable and sustainable
- Unconditional Transfer
 - Ensure a reduction in fiscal equalization
 - Ensure urban services will be equal for both Municipalities and Communes
 - Perform a slight reduction in mountain community and distressed community coefficients
 - Use verified 2005 registry lists for population figure
 - Increase the pool
- Small Business Tax (SBT)/Simplified Profit Tax(SPT)
 - Merge these two taxes into one local tax
 - Make sure the new tax contains a range for local governments to use in setting rates
 - Transfer administration of this tax to local governments
 - Provide local governments with funds for administering the tax (as requested by Mayor of Tirana)
 - Ensure the definition of small business is no longer linked to VAT (this will hopefully encourage greater compliance by small business).

The Government incorporated these proposals into their draft budget and ultimately the Parliament adopted every recommendation except for the transfer of the SBT/SPT, which was delayed until mid-year 2006. Parliament created an unconditional transfer pool for small investments amounting to 1.5 billion leke (the first of its kind). They also provided an additional 300 million leke for a transparent competitive grants scheme. Moreover, the Government increased the overall pool of the existing unconditional transfer by over 1 billion leke. (They also pledged that should revenues exceed expectation –which had been set conservatively to comply with the IMF’s recommendation against over-optimistic scenarios- they would increase funding to LGs in mid-year. Pursuant to this, it appears the Government will increase funding to LGs by another 1.9 billion leke.) These actions successfully completed four activities in the Year 2 workplan.

All of these vital reforms taken together have made a remarkable difference in the financial discretion of this workplan. The administrative changes have seen a decrease in the authority of district treasury offices over LG spending. While less tangible and measurable, these are significant changes that will increase autonomy of local governments over the budgets and spending. The amount of money available to LGs, over which they have spending discretion, has increased dramatically. LGDA will only be able to measure the exact effects of these changes in April 2007 (after the Government posts the official final number for

Budget Year 2006). However, LGDA anticipates a significant rise in the PMP indicator "Total Local Government Expenditures Under Full Local Government Discretion at End of Fiscal Year."

The transfer of the SBT/SPT to LGs has only been put forward in July of 2006. However, once it passes (as expected), the law will also provide greater flexibility and potential revenue to LGs. Initial reviews by LGs and LGDA show that central tax agencies vastly under-reported the actual number of small businesses in LGs. Once LGs bring all small businesses into the tax payment system, local revenues should be increased further.

In the spirit of consultation with stakeholders, in March 2006, LGDA in cooperation with the Ministries of Interior, Finance and Public Works, AAM, AAC and the Prime Minister's Office, conducted a series of regional meetings for all local governments to learn about the recent decentralization reforms adopted in the 2006 State budget (as well as solicit input on the SBT/SPT issue still pending). LGDA worked with the Ministries on their presentations for each of the reforms developed in the context of decentralization - Transfers (unconditional, earmarked investment), Budget/Treasury, SBT and Water, and on the orientation of the working group and facilitators. The 12 regional meetings took place during the first half of March to disseminate these reforms, and each covered the reforms in the local budget and treasury process, proposed reforms to the water decentralization process and to the SPT/SBT, and the results from the LGDA-conducted National Local Government Citizen Survey. The teams presenting these changes to local governments units included representatives from Mol, MoF, MoPWTT, AAM and LGDA. The total number of participants in these meetings was 740 and represented over 80% of all local governments in Albania.

Some general findings of the meetings include:

- General agreement that a formula-based fund allocation is the best way to prevent biased allocations due to political and/or individual preferences.
- Good acceptance and understanding of the new rules and procedures with regard to budget implementation and treasury operations. In a couple of meetings, some LG officials wanted to go even further in budget changes. They suggested city bank accounts and the ability to write checks locally. In addition, many of them expressed concerns about regions and requested more competencies in health and education.
- The transformation of SBT/SPT into one single local tax was supported by most participants. Several local governments openly expressed a desire to have the transfer even sooner than July. There were some concerns about sanctions for non-payment and their ability to collect them (good sign in that they are already looking ahead to collection/administration of the tax).
- The reaction of participants with regard to the issue of water sector decentralization was more complex. Although the participants approved of the detailed short and longer-term policy solutions presented by the ministry officials, there still is a considerable level of skepticism and distrust that decentralization will actually occur. In several meetings, communes dominated the discussion since they have been running the systems without any type of subsidies compared to other units which had benefited from the subsidy schemes.
- The national local government survey was appreciated by all participants, including communes, as a very effective tool in monitoring the progress of decentralization and



increased local autonomy not only in the technical point of view, but also as a measure of service delivery quality and citizen satisfaction with local government performance.

Decentralization of Water

The 2006 State budget includes the continuation without prejudice of the operating subsidies for water companies. The National Government also re-affirmed its intent to fully implement decentralization of the water sector (in 2006). These actions meet the goals established for the year in the workplan. LGDA plans to assist the Government in the transfer of the systems. Under the previous LGAD project, the Urban Institute worked with 5 municipalities on preparing their documentation and request for the transfer of their water systems. The previous Government never acknowledged the requests nor worked on them. Given the new Government's intention of quickly transferring these systems, LGDA decided to work again with those original 5 demonstration cities. LGDA has helped them update their information and negotiating letters and they will all soon approach the Government to negotiate the transfer of their respective water systems. LGDA also updated the negotiation checklist it developed as a guide for local governments in approaching negotiations for the transfer of their systems.

In May 2006 the Inter-Ministerial Committee on Decentralization, chaired by the Deputy Prime Minister, re-affirmed the Governments support for decentralization of this critical sector by approving a fiche on water decentralization that outlines the basic steps and procedures the Government will follow in decentralizing the sector. LGDA assisted in developing the fiche (and therefore the process) and pledged in the second half of 2006 to assist in implementing the process.

The Water Sector remains one of the last vestiges of control by the Central Government over a local government exclusive function. To date, the mid-level bureaucracy, in tandem with the privately operated water utility companies (and their official Association), has combined to block progress on decentralization. This has continued even in the face of official government policy, stated and re-stated time and again. The Government, at the highest levels, has determined to push forward and developed an ambitious agenda of transferring systems that serve 90% of the population by the end of 2006. The Government and the international community have all finally agreed that the utility system needs greater accountability and that decentralization can provide that.

Maintenance of Education Facilities Pilot

The pilot project to test draft health and safety standards for secondary school maintenance also progressed on schedule during Year 2. Preparatory work and initial stakeholder meetings in three pilot Cities (Berat, Pogradec and Bushat) started during Year 1 of LGDA. Year 2 saw implementation begin in meeting the standards. Year 2 involved conducting Trained Observer Rating (TOR) trainings in these cities based on the draft standards, the three pilot LGs developing cost estimates for all maintenance activities to comply with the standards, as well as a presentation of results to the respective local councils. By the end of 2005, LGDA and subcontractor URI facilitated a workshop to bring the three local governments and the Ministry of Education & Science (MoE&S) up to date with the progress and to develop agreements on the targets of what to accomplish during 2006. All three local governments pledged to include funding toward meeting these standards in their 2006 budgets. Some highlights include:

- The TOR in Bushat estimated a total of 6.2 million leke to implement the standards in 11 schools and the City Council approved 5 million leke (traditionally, the City allocated 1.2 million leke which would require the City to meet standards in almost 6 years). Calculations demonstrate that during this budget year, 4 standards will be met 100% and the other 4 over 60%:
- Pogradec has 13 pre-university facilities and for 2006 the City is only attempting to meet minimal standards. The Council approved an additional 500,000 leke for maintenance funds as compared to its 2005 funding levels as well as an appropriation of 300,000 leke from a special fund from the Municipal Budget for Education:
- Berat has 24 pre-university facilities. In consultation and collaboration with school directors and directors of the Economic Department of Education sector, Berat allocated 15,000,000 leke for maintenance (representing a 20% increase from the FY 2005 budget) and 1,000,000 leke for investment from their own revenues. Moreover, during budget discussions, councilors requested more funds allocated to education since it is the future of younger generations.

The repercussions of these three cities' success reached other ambitious Cities which decided to embark upon the initiative to allocate budget funds based on the 8 education standards.

- Kucova, on its own, decided to implement the draft standards in their 16 schools. Upon receiving the conditional grant for maintenance of education facilities from the regional council in the amount of 10,000,000 leke, the City prepared 3 options of allocating funds for the improvement of facilities to meet the draft standards in the LGDA pilot program. In a joint meeting with stakeholders, they jointly decided on a fourth option, which City Council adopted in the budget session.
- Shkoder became the second target city to start work on meeting the draft standards on their own initiative. As budget adoption time was approaching, the City had time constraints and tackled the issue differently. LGDA Shkoder convened a meeting with school directors to explain the methodology of the project and request their estimated input on conditions in their schools. They conducted the TOR process in one of the schools as an example and submitted their estimates and needs for intervention. As Shkodra adopted the budget later than any other City, the cost estimates did become part of the budget and council adopted the allocation of 117,000,000 leke of its own resources (as well as 80,000,000 from the Central Government) to fully meet all maintenance standards. By approving this amount, the Council agreed and approved to allocate funds in two installments.

The education project is now at the implementation and monitoring phase. During the summer of 2006, each LG has proceeded to conduct its school facility maintenance in accordance with their budgets and plans to meet the draft standards. During Year 3, each LG will conduct a new round of TORs to determine their new level of compliance with the standards. LGDA will assist the pilot LGs to present their data and experience to the Minister of Education & Science. The Ministry will then decide how best to roll-out this project to all LGs.

This pilot remains a critical project activity to help establish the needed relationships and agreements between the Central and local governments in the context of a shared function like education. The results will have very valuable results into how the central and local governments might interact across a variety of such functions. LGs have taken this activity quite serious and provided their own funding to help meet these draft standards.



Municipal Borrowing Law

Using a stakeholder working group, LGDA also successfully finalized a consensus policy paper on a new Municipal Borrowing Law. In December (and again in January), LGDA met with the World Bank consultant hired by the Ministry of Interior to write this law. The World Bank requested LGDA assistance in gathering a local consensus on some key policy issues. On April 7, LGDA facilitated the initial working group meeting with the participation of CG, LGs, AAM, AAC, the Bank of Albania, commercial banks operating in Albania, the Banking Association, the Securities Commission and various donors (e.g., MADA, SIDA, UNDP, ADF). The meetings followed the UI methodology of a "Guidance Document," which sets the framework in developing rules, procedures and conditions for access of LGs to credit and/or capital markets in order to obtain financing for priority investments. The document is designed to address issues under three main questions:

Step 1: What? – defines the uses, forms of access and limitations on local financing

Step 2: How? – organizes the process and implements the provisions

Step 3: Who? – determines who has responsibility for which aspects of provisions

LGDA helps process the discussions of each meeting and distribute them to all participants in time for the next meeting. Every meeting was characterized by discussions of specific themes in accordance with these guiding questions. Through these discussions, participants analyzed the international experience and considered the determining Albanian factors, as well as the advantages and disadvantages of possible alternatives. Therefore, agreement on any of the options usually reached a result of deliberations and reciprocal understanding of present parties. There were a few cases where participants maintained strikingly different viewpoints, but these were typically leveled out through further deliberations.

At the end of each meeting, the LGDA decentralization team prepared the minutes and provided them to the participants prior to the following meeting. Additionally, each new meeting started with an overview of decisions taken throughout the previous meeting. The minutes of the meeting as well as the decision-making summary were provided to the WB consultant charged with drafting the law, who had the opportunity to participate in the last two meetings of the working group. A draft of the new law is currently under review and should be proposed in Parliament in the early fall.

This will provide the final component of a comprehensive local government finance system. Many Albanian LGs appear prepared to utilize borrowing for making infrastructure improvements. The Borrowing Law will finally make this available. It will also provide an opportunity for expanded LG programming by USAID in the form of a DCA.

Organic Budget Law

The Ministry of Finance approached LGDA (and USAID) about seeking stakeholder input into the local government sections of a new Organic Budget Law. LGDA developed a Guidance Document (see approach above on Municipal Debt Law) and facilitated a working group to develop a consensus policy

paper on this as well during Year 2. It began in June and concluded in July. The Government should introduce the draft law to Parliament in early fall. LGDA will facilitate a dialog on the final draft when introduced.

This law will provide an essential codification of many decentralization reforms through the years that were mainly enacted through the budget process and subsequent instructions. Although several years of practice of such activities have institutionalized these practices (for the most part), codification will ultimately make them a formal part of the system and ensure sustainability of these changes.

Urban Planning Law

Representatives of the Ministry of Public Works, Telecommunications & Transport (MPWT&T) attended one of the sessions of the working group on Municipal Borrowing and were extremely impressed with the approach. They subsequently contacted LGDA about facilitating a similar dialog for a new Urban Planning Law. LGDA cooperated with the MPWT&T and GTZ to hold a workshop in June to introduce all stakeholders to the process and the issues as well as get input into the guidance document. In mid-July the stakeholder working group began its work going through the guidance document.

This clearly demonstrates the wide-ranging impact of USAID local government and decentralization programming. Through the years USAID has been the leader in providing assistance in this area through a demand-driven approach with broad stakeholder participation. Practices, methodologies and principles offered by USAID have become the normal routine for approaching substantive issues in Albania.

Finally, LGDA conducted an analysis and prepared conclusions on the new scheme (introduced in 2005) for financing investments in education and health. In 2005 the Government sent these funds directly to the 12 municipalities housing Qark offices and then allowed the regional council to distribute remaining funds to the rest of the municipalities and communes in that region. In 2006 the Parliament extended the targeting of the direct funds to 22 municipalities. Regarding funds distributed to the regions, the analysis revealed:

- Weak cooperation between LG/s and MoE in the given district
- Funds tend to be extremely dispersed in many small projects and tend to be distributed to all LGs of the given region
- The size of project does not exceed 5 million leke in almost all cases.

Therefore, it appears that local governments use these funds more for maintenance, small reconstructions or rehabilitation projects rather than investment as intended, such as the construction of new facilities. This trend appears to hold true for 2006 allocations as well.

In the case of funds given directly to 12 municipalities in 2005 (and 22 municipalities in 2006), the situation seems much better compared to those distributed by regions. Some of these municipalities started constructing new facilities since they had sufficient amounts of funds to do that.

Overall, the two ministries are gradually coming to the conclusion that the scheme cannot work as currently designed. The Ministry of Education seems more inclined to expand the concept of giving the funds directly to Municipalities and Communes and exclude the regions from the scheme, while the Ministry of



Interior appears to want to keep the existing scheme with modifications in 2007 (additional instructions) and see how it fares.

The situation seems similar regarding the funds for investments in primary health care.

Institutionalizing an Open, Participatory and Objective Dialogue

One of the challenges that came along with the initial decentralization reform – which produced the National Decentralization Strategy - is stakeholder consultation. Without a doubt, during Year 2 LGDA has successfully institutionalized the spirit of consultation in dialogues regarding specific decentralization policies. Some of these instances are mentioned above.

During Year 2, LGDA built on the success of Year 1 with conducting round table discussions with senior leaders and line ministries. In Year 1 the activity started as a good practice to keep central government officials in tune with the decentralization progress; this year, the activities were not only a continuation of a good LGDA practice, but also a useful challenge for newly elected legislative and executive officials to help them become familiar with the value and procedures of consulting with stakeholders.

The Parliamentary/Senior Leaders seminar took place in December. It served two purposes: an introduction to the current status of decentralization and the details of policy changes resulting from the policy dialog and included in the draft 2006 budget under their consideration. It was a lively session and extremely well attended by Parliamentarians, members of the Government, local governments, donors and other key stakeholders. Over 40 Parliamentarians, including the Speaker, attended the session showing how important key actors view the work of USAID. In the preparatory phases, LGDA, with subcontractor ISB also worked with AAM and AAC leaders to ensure their involvement and cooperation, which in turn, continued to lobby Parliament after the seminar.

LGDA was on schedule with delivering the Line Ministry workshop (May 2006). The workshop focused on the role of technical staff of Line Ministries in a decentralized government and was attended by representatives of Line Ministries, Agency of Property Inventory and Transfer, Municipality of Berat (as a case study on the education project), and other agencies, including the Albanian Development Fund, SIPU, AAC, AAM, and ADRA.

The workshop aimed to address two important issues: 1. Policy making and Standards: Examples of Safe and Healthy Schools at the Pre-University Educational System, and 2. Transfer of Public State Properties to Local Government. Due to the in-depth and lengthy discussion that ensued on the first issue, the second issue was only covered briefly. However, at the end of the workshop, participants asked for another workshop to address the property transfer issues. LGDA is already thinking about planning a follow up meeting to look at the property transfer issue should the budget allow for it.

As highlighted in Year 2 work plan, one of the challenges for USAID and LGDA was to determine the best moment to intervene in the discussion of decentralization reforms among other organizations engaged with the issues of decentralization in Albania. LGDA makes a concerted effort to maintain active communication

and engagement with other donors involved in decentralization reform in Albania—and has been highly successful in its efforts. Some highlights include:

- a. The World Bank during discussions about public finance in Albania invited LGDA to collaborate on their Public Expenditure and Institutional Review (PEIR) for Albania by writing the section on decentralization. This has provided an excellent opportunity to harmonize views on decentralization in Albania. LGDA and the World Bank consistently consult each other routinely on different issues related to decentralization and local governance.
- b. Additionally, upon the invitation of the Ministry of Finance (MoF), LGDA/USAID started working on amending the Organic Budget Law. The Ministry asked LGDA to prepare the section on the local government budget. Based on participatory methods aiming at enriching this process by drawing opinions and experiences of all relevant stakeholders, the MoF and Mol (and later AAM) with the assistance of LGDA launched a series of consultation meetings with all stakeholders. The *ad-hoc* working group was comprised of representatives of AAM, AAC, LG units, central government (Mol, MoF and line Ministries), deconcentrated agencies of CG, and donors. Although the Government delayed the activity, the working group was able to convene 6 times within the month of June and early July.
- c. During Year 2, the Ministry of Public Works, Transport and Telecommunications (MPWTT) undertook the initiative of drafting a new law on “Urban Planning.” This law is part and parcel of the process of legal and institutional reformation of urban planning and monitoring in Albania. The draft requires reviewing the methods of urban planning, approval of permits and responsible implementing and monitoring institutions. The first working group meeting took place in June under the joint facilitation of LGDA and GTZ.
- d. LGDA also worked with the Ministry of Interior, the Ministry of Finance, the Ministry of Public Works and the Prime Ministers Office in the development of fiche on the next steps in decentralization for the newly constituted Inter-Ministerial Committee on Decentralization (IMCD). IMCD approved in May four fiche on decentralization. They include action plans for the policies of relevant sectors and therefore the Government will only take action on decentralization policies upon the fiche format and methodology. During June, the Group of Experts on Decentralization (GED) took the meeting a step further. They discussed in detail the decentralization fiche as well as some of the priorities of the Ministry of the Interior. GED was then divided into technical sub-groups which are assigned different policy areas of decentralization. LGDA was invited to help facilitate and contribute to both the IMCD and the GED.

Support for National-Level Local Government Organizations

The assessment of national-level organizations with a focus on local governance, scheduled to occur at the end of Year 1 was completed. At the beginning of Year 2, the LGDA team (LGDA Tirana, URI, ISB) finished assessments of the following organizations:

- Association of Albanian Municipalities (AAM)
- Albanian Association of Communes (AAC)



- Albanian Association of Regions (AAR)
- Training Agency for Local Governments in Albania (TALGA)
- Institute for Training in Public Administration (ITAP)

In the end, LGDA determined that only AAM and AAC were viable entities. TALGA has never received government support as envisioned and barely exists. A donor-driven invention, it has never performed a viable function and LGDA sees no role in decentralization for them at this point. AAR has few members and lacks any organizational stability to build upon. ITAP, although a sound basic concept, continues to disappoint and shows no real potential as an actor in this sphere. AAC is in the first year of a project through SIDA and therefore needs little assistance at this time. LGDA believes that any significant investment of resources into any of these other organizations would not be useful.

LGDA spent considerable effort in developing the capacities of AAM during Year 2. LGDA worked closely with AAM staff in the preparation and facilitation of a Retreat for AAM's steering committee, which took place in Berat in December 2005. During their discussion and debate, the steering committee members reviewed and reaffirmed the mission of the AAM and began to elaborate a shared vision for the development of the Association over the next three years. The Steering Committee agreed on the objective to reinforce its role as stakeholder in the decentralization debate in Albania, which will also involve the development of its information network, public image and communication strategy. Strengthening the analytical capacity of AAM is seen as key to supporting members in their discussions with the central government and with Parliament, in order to promote and reinforce the implementation of decentralization. Through discussions over the coming weeks, the AAM will further elaborate the strategies and training programs it would like to develop and will confirm with members the ways to achieve the strategic vision agreed in the discussions held during the Retreat.

Also during Year 2, the leadership of the AAM (and AAC) went on a study tour to the US to see first-hand how similar associations in the US operate. They learned in great depth all of the different roles such an organization can play for its membership. They also saw different methods for financing their operations.

The following table lists the participants in the study tour; six of the mayors represent LGDA target cities.

Names of Participants					
	Name	M/F	Town	Institution	Position
1.	Flamur Bime	M	Gjirokastra	City of Gjirokastra	Mayor
2.	Julian Cani	M	Tirana	Albanian Association of Municipalities (AAM)	Deputy Director of Finance and Administration
3.	Robert Damo	M	Korca	City of Korca	Mayor
4.	Kadri Gega	M	Lushnja	City of Lushnja	Mayor
5.	Ilmi Gjeci	M	Mamias	Mamias, AAC	Mayor, President of Albanian Association of Communes
6.	Artan Haxhi	M	Shkodra	City of Shkodra	Mayor
7.	Agron Haxhimali	M	Tirana	Albanian Association of Communes	Executive Director
8.	Fatos Hodaj	M	Tirana	Albanian Association of	Executive Director

				Municipalities	
9.	Artur Kurti	M	Kucova	City of Kucova	Mayor
10.	Fadil Nasufi	M	Berat	City of Berat	Mayor
11.	Ardjan Turku	M	Elbasan	City of Elbasan	Mayor
12.	Baftjar Zegaj	M	Fier	City of Fier	Mayor

The study tour had three aims for The AAM:

- Review and modify the organizational structure and procedures of the Albanian Association of Municipalities, as needed;
- Review and modify the association's operational activities, as needed, to include more services to members and more effective advocacy;
- Conduct an effective annual meeting and other formal gatherings.

The group conducted a de-briefing session of what they learned on March 28 to which LGDA attended. Each one of the participants expressed their impressions of the trip, their commitment to apply new techniques in their organizational and management activities as well as expressed their gratitude to USAID for the opportunity. The group provided LGDA and Forecast with a draft action plan, which included such actions as:

- Publication of an AAM Newspaper/Newsletter
- Institutionalize Periodic Meetings with GoA for Better Advocacy Efforts
- Designate Regional Representatives (Mayors) for Better Interface with Municipalities
- Increased Trainings/Presentations to Mayors About AAM and Its Work
- Adoption of ICMA Code of Ethics by Municipalities
- Compile a Manual for Leadership of Municipalities
- Establish a Working Group to Recommend Improvements to AAM Statutes and Regulations

In another noteworthy measure, the 8 Mayors attending the study tour returned and asked their respective councils to double their budget appropriation to the AAM for 2006 and all approved. It is their first step, both symbolic and tangible, of their support for AAM and their desire to improve the organization.

It is worthwhile mentioning that LGDA involved AAM and AAC representatives in consultation sessions and working groups on fiscal changes, parliamentary seminar and line ministries workshop. LGDA also involved AAM in facilitating the dialog on Municipal Debt to develop their capacity to undertake such activities in the future. Furthermore, LGDA is involving all assessed organizations in the decentralization fiche where each of them is assigned tasks based on their areas of interest.

Finally, LGDA also worked with AAM on strengthening the use of its professional forums (advisory groups to AAM consisting of professional LG staff). LGDA will continue in Year 3 to work with AAM on developing one of these forums into a professional association.



The results from LGDA activities with AAM, and in line with AAM's own experiences from the retreat and the study tour, indicate the need for greater investment in developing the capacities and importance/stature of AAM. One way to accomplish this would be to bring them even closer into the activities of LGDA. Therefore, in Year 3 LGDA will second its decentralization component, staff and consultants to AAM. This will make AAM an integral part of all the remaining activities. It will increase their standing and profile as well as familiarize them with LGDA techniques for future sustainability. It will also show the value of increasing the size and competencies of their staff.

Sub IR 3.2: Strengthened Capacity and Accountability of Targeted Local Governments

Management of Local Services

Activities in this sector represent core efforts of LGDA to improve local governance in Albanian Cities. The use of customer-driven Service Improvement Action Plans (SIAP) carried over from LGAD. The twenty-three existing target local governments continued to expand the use of the SIAP approach to additional functional areas for the 2006 and subsequently the 2007 budget (e.g., Pogradec City budgeted four services using the SIAP methodology). Staff from regional offices continually follows up with individualized trips to each target city in order to assist with the development of SIAPs. However, regional office staff continues to turn management of the activity over to local government staff and increasingly plays a true technical assistance role in providing guidance and advice where sought. City staff provides more and more of the impetus for expanding the use of the SIAP methodology, demonstrating the sustainability and the value of the methodology; cities find new and innovative ways to utilize the methodology themselves.

SIAPs continued to follow the basic 10 step process:

- 1) Selecting service area or issue
- 2) Establishing the Working Group
- 3) Situation Analysis (Where are we?)
- 4) Program Outcomes/Indicators (Where do we want to be?)
- 5) Data Collection
- 6) Data Analysis and Target Setting
- 7) Action Planning
- 8) Budget Approval w/ Departmental Budgets Including SIAPs
- 9) Action Plan Implementation
- 10) Citizen Outreach, Reporting & Monitoring

During Year 2, the services selected for improvement were: cleaning service, road and sidewalk maintenance, public lighting, green spaces and parks, water supply service. For the first time Cities also started working on the improvement of administrative procedures. Although work with administrative procedures did not start until mid-year, outcomes have been such that more Cities have embraced them as core tasks for Year 3.

SIAP working groups (WGs) in target cities had participation from deputy mayors, public services directors, finance offices, urban planning officials, council, service companies as well as civil society and citizens. In some cities the role of civil society has been very influential. For example, in Puke a civil society leader took

the responsibility of presenting SIAP to the Council. In Fier, a member of the Youth Parliament, after serving on the WG, applied for and received a grant to assist in monitoring the city's implementation of its SIAP. Moreover, in Lezha a member of the Youth Parliament has also recently become involved with the external monitoring of the cleaning service (and has likewise urged its branches in both Rreshen and Rubik to participate in the SIAP monitoring process in their respective communities).

During Year 2 LGDA stressed greater involvement by the City Council in the SIAP process. WGs made preliminary and then final presentations to Councils of their work. These sessions attempted to make Council more aware of the methodology, the innovations associated with it in the context of budgeting and measuring performance as well as gathering councilor opinions on different aspects of SIAP. They were extremely well received from councilors. Most of the presentations took place in regular City Council meetings with the presence of citizens; in addition, some cities conducted Public Hearings inviting a wide range of interest group members and citizens in addition to councilors and city staff. Pogradec provides an excellent example of this practice: the presence of 150 people, municipal officials presented not only their 4 SIAPs and targets for 2006 compared with Pogradec City Survey (the latter incorporated in the SIAP documents), but also a their Budget Analysis for 2003-2005 which compared the changes and highlighted the tendencies from year-to-year as well as the analysis of the city's own resources (taxes, tariffs and other resources). Other cities also conducted special sessions with civil society and other active local community members to further educate the public about their activities (through SIAP). Almost all of these events received media attention. Upon approval 'in principle' of SIAPs from council, they were included in the local budgets and ultimately approved as part of the official local budget.

The following chart provides the basic information on SIAPs for target local governments:

City	Roads and Sidewalks	Solid Waste and Street Cleaning	Water	Maintenance of Facades	Public Lighting	Greenery
Shkodra					✓	
Rreshen	✓					
Bushat			✓			
Puka		✓				
Bajram Curri		✓				
Kukes	✓					
Lezhe		✓				
Fier		✓				
Vora			✓			
Patos		✓				
Kavaja	✓			✓	✓	
Vlora		✓				
Berat					✓	



Kucova		✓	✓		✓	
Pogradec	✓	✓			✓	✓
Prrenjas		✓				✓
Peshkopi					✓	✓
Bulqize		✓				✓
Erseke	✓		✓		✓	
Elbasan		✓			✓	
Permet					✓	
Gjirokastra		✓				
Saranda		✓				

Total SIAPs	5	13	4	1	9	4
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Patos and Bulqize did not get their SIAPs approved by Council. Therefore, 21 target local governments completed 33 SIAPs for inclusion in their 2006 budgets.

LGDA's work with target local governments has already shown the possibilities for demonstrable improvements in local government service delivery. The cities prepare budgets that reflect known targets for service levels and budgeted activities attempt to meet those targets. Erseke had set a target in 2005 of 100% of households covered by city water service, which they finally reached this year. They had been increasing coverage over the last couple of years through their SIAP. On street lighting, in 2004 60% of citizens were satisfied with the amount of street lighting in the city. For 2005, they set a target of increasing the level of satisfaction to 75%. The actual level of satisfaction was 79%.

Kucove did a SIAP on street lighting. They had 68% citizen satisfaction with lighting along main streets in 2004. For 2005 they set a target of 76% and actually achieved 83%. For secondary road lighting, satisfaction in 2004 was 30%. They decided on an aggressive action plan and aimed at 45% satisfaction in 2005. They actually achieved 50%. In another example of how they use SIAP, Kucove had a 68% collection rate on their solid waste collection fee. They set a target of improving that to 78% in 2005 and set an action plan to meet that target. They achieved 80% in 2005.

In addition, Bajram Curri and Elbasan have used their SIAPs to develop new contracts for solid waste collection and street cleaning. They are using service standards and targets generated by their SIAP as the standards and targets the new contractor must meet. They will also use citizen feedback as part of the evaluation process for contractor performance. Additionally, two new cities, Lezhe and Puke, are working on building a performance-based cleaning service contract for 2007 budget.

These are merely a few examples of how target cities have used the SIAP methodology to make improvements. All target cities have established baselines and targets for services for 2006. Next year LGDA anticipates reporting on their progress in meeting the targets they set for 2006.

And while regional staff were key in implementing SIAP activity in target cities, non-target cities also implemented LGDA programming with significant results. In Year 2, 33 non-target cities started working on

a selected service(s) for improvement using the SIAP methodology. LGDA Mentors – city employees from successful target cities and others– provide limited assistance as a follow up to LGDA training for these cities. The non-target cities are responding. During Year 2, 25 non-targets had adopted 30 SIAPs in their 2006 budget. Moreover, a few others used other LGDA methodology (sometimes contained in the SIAP without adopting entire SIAP) in their budgets.

Following are highlights related to non-target cities:

- Pegin Budget Approved with SIAPs

The final budget included all three SIAPs prepared. For the public lighting service, the city applied a fee for the first time (200 leke/household), aiming at a collection rate of 500,000 leke/year.

- Konispol Budget Approved with SIAP

Making use of citizens' willingness to pay for a better cleaning service (a key result from their user survey done through the SIAP), the City Council unanimously decided to introduce a cleaning fee of 200 leke/household.

The mayor emphasized that cleanliness of the city was becoming a real issue especially when a lot more foreign visitors had expressed willingness to visit the city. Therefore, for the mere purposes of raising community awareness on city cleanliness, he requested a SIAP presentation to the high school teachers and students, business community and other interested stakeholders. The event is scheduled to take place during April.

- Kamez Budget Approved with SIAP

The City Council approved SIAP as a methodology for use in the budget process in December. In March, the City approved its 2006 budget with the complete SIAP included.

During 2005, the cleaning fee applied to the entire population was 300 leke/household and tax collection for the year marked 0 leke. Therefore, SIAP included 1,250 families in the payment scheme (households from the target zones – zones receiving donor support) and set a cleaning fee at 400 leke/household. In addition, SIAP included an increase in the communal enterprise funds from 25 million leke in 2005 to 35 million leke in 2006 (90% of the funds is used for the cleaning service and the rest for greenery and other services).

- Sukth Budget Approved with SIAP

For the first time, due to use of SIAP, the City allocated funds for road maintenance (1,650,000 leke).

- Vau i Dejes Budget Approved with SIAP



The original SIAP document stipulated a 14 million leke investment for road maintenance. However, Council, approving of the SIAP methodology and wanting to make sure they reached the established targets, increased the requested amount and approved a budget of 17 million leke.

- Shijak Budget Approved with SIAP

In December 2005, the Cleaning Service SIAP methodology was approved in a city council hearing. In March the City Council approved the final SIAP with the following results:

- In 2005, the City applied the same cleaning fee for all households - 300 leke;
- In 2006, based on the SIAP document, the City Council approved a categorization of fees:
 - 500 leke/household;
 - 300 leke/household living on economic benefits;
 - 100 leke/household for the elderly; and
 - 10% of fee increase for businesses.
- They also approved an additional allocation of 1,000,000 leke to increase the frequency of cleaning.
- A new bidding process for the service will be undertaken soon. They intend to include performance indicators from their SIAP for evaluating the contractor.

- City of Memaliaj Budget Approved with SIAP

City Council approved the 2006 budget which increased the cleaning service budget by 150,000 leke for expanding the service to underserved areas and purchasing small capacity bins, as well as placing 5 large-sized bins, donated from donors

- City of Koplik Budget Approved with SIAP

The SIAP working group presented their final SIAP to the City Council at a public hearing. Subsequently, the Council approved the 2006 budget with the SIAP included. In 2005 households paid a 200 leke fee for cleaning service. In the approved 2006 budget, the council increased the fee and distinguished between households living on economic benefits (300 lek/household) and other families (400 lek/household). The Council received media attention on both deliberations of commissions (March 28) and the overall Council budget session (March 29). The SIAP introductory session was transmitted in full.

- City of Tepelena Budget Approved with SIAP

City Council adopted their SIAP and increased the budget for the cleaning service by 200,000 leke to expand the cleaning service to previously underserved areas of the city.

- City of Kelcyra Budget Approved with SIAP

City Council approved their SIAP on Water Supply. They included a fund of 1, 500, 000 leke for installing water meters in 150 single family houses.

- City of Selenica Budget Approved with SIAP

The City Council approved their budget with a SIAP for the cleaning service. Council included 170,000 leke more than in 2005.

- City of Ballsh Budget Approval

Due to a conflict between the Mayor and the City Council chair, the SIAP for public lighting was never formally introduced to Council. However, the Council did approve the fiscal package contained in the SIAP document. They introduced for the first time a fee on public lighting. City Council approved this fee on businesses (500 leke/year for small business and 800 leke/year for medium business) and institutions (5,000 leke/year), exempting households for the moment (the SIAP recommended a household fee as well). The City showed its willingness to increase its own source revenues, even in an election year. So, although the City Council has not yet approved the SIAP on Public Lighting, it still included the SIAP fiscal package into its 2006 budget.

Finally, because the Mentor program has so successfully spread LGDA programming to non-target cities, LGDA will try and identify additional Mentors to continue increasing program coverage to more and more municipalities.

What permeates the overall work of LGDA is a change of the culture within local government units. One way to measure the impact of LGDA alongside the impact of the decentralization efforts is through surveys. LGDA commissioned a nationwide citizen survey and more detailed sampling in 9 target cities on local government performance across a number of dimensions. The national survey was conducted in July-August 2005 and the nine city surveys in September. All surveys were conducted by the Institute for Development Research and Alternatives (IDRA) who conducted random samples for each survey.

The surveys were structured to elicit responses on the following topics:

- Strengthened Capacity of Local Government: citizen satisfaction with local services, financial management, city council activity, customer service, and responsiveness of local government to citizen needs.
- Increased Accountability of Local Government: citizen trust in local government to make decisions in a consistently fair fashion, to manage local finances well, to apply policies and procedures fairly and consistently, to provide accurate and useful information about procedures and requirements, to be transparent.

The results are encouraging for some of these cities. All survey data are in fact project performance indicators. The following table provides some comparative results from 6 cities on services they conducted a SIAP on (compared with local survey data from 2004). Since each city had taken specific steps to improve these services through the Service Improvement Action Planning (SIAP) process, the data suggest we may have had a positive impact. The following table shows the 2005 results.

City: Service Featured in SIAP	2004	2005
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<i>Elbasan: Solid Waste Collection and Street Cleaning</i>		
• Cleanliness of City	41%	55%
• Cleanliness of Neighborhood	28%	46%
<i>Erseke: Water</i>		
• Always or Usually have Sufficient Water	25%	67%
<i>Kavaja: Solid Waste Collection and Street Cleaning</i>		
• City is Clean or Very Clean	15%	22%
• Neighborhood is Clean or Very Clean	25%	29%
<i>Kucove: Solid Waste Collection and Street Cleaning</i>		
• City is Clean or Very Clean	96%	91%
• Neighborhood is Clean or Very Clean	76%	67%
<i>Pogradec: Parks and Green Areas</i>		
• Satisfied or Very Satisfied	84%	98%
<i>Pogradec: Public Lighting</i>		
• Sufficient Lighting	39%	81%
<i>Pogradec: Solid Waste Collection and Street Cleaning</i>		
• City is Clean or Very Clean	75%	91%
• Neighborhood is Clean or Very Clean	48%	72%
<i>Rreshen: Solid Waste Collection and Street Cleaning</i>		
• City is Clean or Very Clean	51%	69%

While all City Surveys were introduced to respective councils and/or local community, the national survey was officially introduced in a press conference as well as in all 12 regional meetings. The national survey results are baseline data; the survey will be conducted again in early 2007 to assess progress made.

LGDA also provided a series of training courses aimed at continuing the capacity building of target and non-target cities. Year 2 scaled out capacity building activities to city councils and civil society. Usually the trainings were delivered based on cluster cities but LGDA provided extra trainings for hard-to-reach cities or additional trainings upon the request of individual cities.

The 'training season' started with Successful Cities II for target cities and was replicated for non-target cities. LGDA regional staff and sub-contractor URI conducted 8 training sessions. They were 1-day trainings with participants from City and Council leadership, city staff and councilors as well as civil society representatives. The hard-to-reach cities were not represented, upon which LGDA decided to conduct 2

extra trainings thus enabling good participation from those cities. The total number of participants reached **190** people. The courses highlighted continuous communication with citizens as a two-way flow of information, explored ways to more actively engage civil society groups and citizens as well as recommended ways local government can change citizen perceptions in specific areas of information, fairness and citizen participation. In addition to citizen outreach, the trainings also emphasized the importance of regular monitoring of outcomes and progress made on SIAPs (in other words, SIAPs are not one-off events, but ongoing management tools). Finally, the topic of “budget choices and trade-offs” that Councils inevitably are posed with when deliberating the allocation of scarce resources was addressed, especially to those cities that are beginning to conduct multiple SIAPs.

As a direct result of this training:

- LGDA Shkoder put together a questionnaire for its target cities on communication and citizens’ outreach.
- Some Cities are already working on improving communication and information and/or the public information office as 2007 SIAPs.
- Additionally, all cities are involved with the monitoring process of 2006 SIAPs.
- LGDA Fier is making every effort to materialize the concept of budget choices and trade-offs through the participatory budget process.

City Council I for non-target cities was conducted during Q2 of Year 2. It had the participation of **31** councilors and chairmen from 13 Municipalities. The training was facilitated by subcontractor Edlira Muedini and LGDA staff member Violeta Marko. The purpose of the two-day training was effective collaboration of city council with the mayor, staff, and other stakeholders, effective two-way communication with the community, facilitating productive council and commissions meetings by managing different perspectives and solving conflicts.

Leadership Training for City Councils (City Council II) focused on the role of city council and its relationship with the city officials and the public. It also concentrated on how the council could become more effective in its internal operations and successfully reach a collective vision for the city. LGDA conducted 4 sessions for target cities attracting **58** city council members from 14 target cities. The second round of City Council II for non-target cities will be conducted in the fall.

Year 2 also saw a focus on the third pillar of successful local governance – civil society. The project started with the identification of civil society in each target local community. The assessment methodology was prepared by World Learning and trainings were provided by subcontractor IDRA. The assessment has provided LGDA with a rich database of identified civil society organizations in its target communities. For each organization, the database lists contact information, involvement in local governance and areas of interest. The assessment serves as the baseline for civil society activities seeking to make civil society a partner with local government rather than an adversary. The assessment involved conducting a series of semi-structured interviews with community leaders, both within and outside government. It is designed especially to establish contact with those less developed and organized efforts who might interact with local government (e.g., school parents, downtown business owners, etc.). The database of the existing civil society organizations in each local community was then provided to the Mayor and Public Information Office of each target city. Upon the completion of the assessment, Vore started a monthly civil society roundtable; Cities invite those civil society actors and consult with them about city activities and get their



feedback; Cities invite them in budget hearings or stakeholder meetings prior to budget adoption, and so forth.

The assessment was followed by two training courses:

- "Constructive Engagement of CSOs in LG" (Watchdog Course) attempted to prepare identified civil society leaders to participate in the upcoming budget discussions of their Municipalities. The course provided practical knowledge about the budget process, different roles and responsibilities and basic tools on budgeting (e.g. reading a budget, understanding a financial statement, etc.). The trainings were delivered to all target cities prior to SIAP presentation and budget adoption to City Council. The trainings were highly interactive and covered issues like: what is constructive engagement, what makes a city successful, what could be the role of CSOs in each phase of the budgeting process, the role of CSOs in SIAPs and their impact on the budget. The trainings were attended by 108 participants from 21 target local governments.
- "Civil Society and Local Governance" was the other training which originally would take place during Year 1, but due to delays in the civil society assessment process occurred in Year 2. The training was conducted by IDRA and LGDA regional staff and focused on the expectations of CS from local governance and how the latter involves citizens; vision for civil society, city staff and council as a three-way partnership, specific roles of civil society as well as recommendations on how LG can change citizen perception. There was a total of 4 trainings for each cluster of target cities and 2 extra trainings for hard-to-reach cities, totaling 130 participants from 22 target local governments.

An additional training course focused on media as the motor to keep local government accountable and an invaluable function in fighting corruption at all levels of government; therefore, media is treated not only as falling under the civil society umbrella, but a target group of its own and a powerful instrument in being the herald of transparency. The informative and interactive training focused on establishing two-way communication between media and local government units and creating a common vision for constructive engagement between media (as part of civil society) and local government. The trainings were facilitated from LGDA Tirana and regional staff, and invited the participation of print and visual media in target cities as well as city public information officers. Participation reached **84** people from 19 target cities (some target cities do not have local media).

The course covered the legal framework of media operations, the expectations of Local Government and Media in Local Governance, decentralization as a concept and challenges associated with it, the role and involvement of media in the budget cycle and other decision-making practices, as well as an overview of SIAPs and surveys. At the end of the trainings, media representatives expressed their wish to be local actors in SIAP monitoring and also other city activities.

As a result of these trainings, civil society organizations are becoming very active in local governance. LGDA notices media representation in SIAP Working Groups in 2007, as well as more media coverage of their local government unit activities. Additionally, civil society organizations are monitoring city council decisions (Pogradec), city procurement activities (Elbasan) and external monitoring of SIAP (Lezhe) through their Youth Parliament.

LGDA regional staff continuously provides on-site technical assistance and training (as well as follow-up to other training). In Year 2, in addition to the regular training program of LGDA described above, regional staff provided training to target and non-target cities on how to conduct Trained Observer Ratings (TOR) for a variety of different services, participatory budgeting (in Fier), budget hearings and performance monitoring (for civil society organizations), building the personal and professional capacity of a women's organization "Une Gruaja" (Pogradec) as future leaders in LG functions, outcome-oriented budgeting, to name a few. Regional staff also provides a variety of follow-up assistance for different activities as well as responds to city requests for assistance, including assistance on financial analysis for budgets, effective presentation of draft budgets to the public (some using PowerPoint presentations for the public for the first time), calculating costs and fees, and so forth.

LGDA continued working with Municipalities on the transfer of water and wastewater assets. LGDA worked with different Municipalities on preparing a due diligence analysis of the financial and administrative status of these systems in advance of the transfer. Local governments can use this information to make informed choices about how to proceed with the transfer in negotiations with the central government as well as making decisions about the operations of these systems after the transfer occurs. (See above for more on Water Decentralization.)

Administrative Procedures

One of the most successful and reverberating courses conducted in Year 1 was the Trust Building course offered to both target and non-target cities. Its repercussions reached Year 2 with:

- Compliance Audits in four demonstration target cities (Shkoder, Kavaje, Pogradec, Permet). The Summary Report, finalized at the beginning of Year 2, provided an analysis of the Cities' practical application of the laws/regulations dealt with in the trust building course. It found very low compliance with laws/regulations and almost no secondary legislation for further enactment at the local level. The audit also provided some recommendations for improving compliance. LGDA has followed up in these cities with programming designed to fill the gap. The citizen survey next year should reveal whether these cities have improved in building trust in their communities.
- Some Cities reacted to offer a better service to their local community and customer friendly work processes. As a follow up to the training, Gjirokastra produced leaflets to inform its citizens on their right to information on official documents as well as produced posters announcing the upcoming council meeting, the respective, data, venue and agenda. The training also gave an impetus to Pogradec to publish in the local newspaper the upcoming council meeting, visiting hours of the city, and other useful information.
- While other Cities went beyond these activities by undertaking improvements in administrative procedures.
 - The City of Kucove was the first City which on its own initiative created a SIAP for improving services in its One-Stop-Shop office. The aim of the improvement was to



expand the one-stop-shop to cover transactions between the city and citizens (not just business registration).

- Pogradec City built on the national survey results on the cleaning service as well as the low percentage of households paying the cleaning fee, which triggered Pogradec to embark upon increasing the awareness of citizens in keeping their neighborhoods clean as well as paying the fees. The WG targeted 8-grade pupils who, as the international best practice literature acknowledges, are excellent voices for promoting good works of local government. This innovative idea brings forth sustainability and citizen awareness through school children.
- Fier worked on its own initiative on improving fee and tax collections from households for the cleaning service. The idea for drafting the plan originated from the SIAP on the cleaning service where the number of paying households was half the number of households who received the service.
- Peshkopi also faced the issue of a lower fee collection rate than the budgeted amount (-30%), upon which they decided to improve through SIAP methodology the increase of revenue from local fee and tax collections. As a result of the action plan, the City established the municipal police, prepared a passbook, distributed announcements, signed a contract with AlbTelekom as their tax agent, as well as started an awareness campaign via media concerning the rate of taxes and fees, services that are provided and office for paying taxes and fees.
- In Saranda, LGDA cooperated with EDEM on preparing a SIAP on administrative procedures to improve the business climate. City staff welcomed the initiative, aware now that by law (enforced as of January 1, 2006) they have the right to register businesses and issue permits. That work is in progress. The new procedures for the City's management of small business will soon have a computerized system for the inventory of businesses and the automatic calculation of their obligations to the City. IDRA experts are currently working on producing this system.

There have been problems with Shkoder as one of the demonstration cities to work with EDEM. The SIAP on Improving Business Registration and Re-registration Process would be somehow different from the Kucova model. The WG agreed to have a One Stop Shop represented from two institutions, the Municipality and Tax Office, bound by a Memoranda of Understanding with all other institutions involved in the process of business licensing. However, the City showed some hesitancy on the issue and the progress stalled.

It is worthwhile mentioning that Administrative Procedures continue to be a driving force in the work of LGDA as a powerful tool to reduce corruption, provide transparency and therefore make LG units more accountable to their local communities. Local Governments are increasingly realizing the importance of this interface with the community and are seeking to improve upon their interaction and the services they deliver. Many target cities have chosen different aspects of administrative procedures as areas for improvement utilizing the SIAP methodology for 2006-2007 SIAPs.

Financial Systems and Management

The Financial Systems and Management activities are related to the Financial Systems and Management training courses offered to target and non-target cities during the last months of Year 1. These trainings as well as the former courses under LGAD built on the new ways of understanding the budget, cost and fee calculation, and financial analysis. LGDA also brought an international consultant to prepare a comprehensive assessment of the financial management systems in two cities (Puke and Elbasan), taking an extended view of the budget, cash tracking and management, accounting, procurement and human resources.

The draft report of this activity did not arrive until the beginning of Year 2. It provided an assessment of the weaknesses in these systems, developed recommendations for guiding future assistance and explored the potential for future debt financing of investments. Some of these recommendations were used by the WG on Budget Rules and Reporting in developing their recommendations in the area of cash tracking and management. It also provided valuable data to the working group on municipal borrowing and the working group on reforming local government budget legislation.

LGDA followed the trainings and the assessment with a methodology to monitor and evaluate if, how much and how, target municipalities are using in practice the knowledge achieved during the series of Financial Management trainings conducted through the years. This follow-up assessment had two categories: (1) key concepts of fiscal and management policies and (2) key concepts of financial analysis and reporting. The assessment was tested with Kucove whose officials considered the tool easy to understand and use and then rolled out in all target cities. LGDA will compile this data and prepare a presentation of the results and best practices for the closing conference next year.

LESSONS LEARNED FROM YEAR 2

Comments in this section are a result of evaluation forms, consultative meetings of LGDA team, representatives from central government, local government and AAM, as well as interviews with SIAP working group members, councilors, mayors/deputy mayors, other city staff and other project partners.

All counterparts remain extremely enthusiastic about the use of regional offices in our field work and collaboration with Cities. During Year 2, Cities started to request more and more intensive and direct support from regional offices, tailored to their needs. This included not only further assistance with service improvement, but also additional trainings for staff, additional assistance with their budget preparation and monitoring, multi-year data analysis (revenues-expenditures), assistance in working with local civil society organizations, to name a few.

During the last year, cities also gained the experience of using SIAP as a management tool in better administering a service or through improvement of an administrative procedure. Additionally, two cities produced performance-based contracts for the first time. They used the SIAP process, and indicators/targets from the actual SIAP, to guide their contracting process. They will hold contractors accountable for results based on their SIAP.



One of the main strengths of LGDA was expanding capacity building for city staff, city council and civil society. No doubt, one of the challenges for the third year of the project, as highlighted by other key local government officials, is to provide more training and assistance activities which bring together representatives from these three pillars, thus integrating the efforts for better overall governance.

Another overall strength is citizen orientation in decision making. Cities now have realized how important it is and how much it helps the city become more accountable, transparent, demand oriented, build common trust, and improve life in general. Obvious results come from survey data. In addition, LGDA has noticed a significant increase in political will for the involvement of civil society in local government decision-making. Examples include:

- Vore – Continued effective use of the Civil Society Roundtable
- Kucove – Use of Citizens Commission
- Fier – Start of participatory budgeting activities by neighborhood
- Lezhe – Invitations to civil society for different meeting, events
- Pogradec – Involvement of civil society in different decision-making activities

While LGDA has increased programming for City Councils, with positive results, LGDA also learned that regional offices need more interaction with Councils to keep them apprised of LGDA activities and progress in their community. To this end, LGDA regional staff will now attend more council meetings and get on the council agenda and give an update each 3-4 months.

Most of the lessons learned on decentralization have been positive. LGDA facilitated major positive changes in the framework and financing schemes. The use of stakeholder involvement is expanding to other Ministries and activities. The only real weakness is AAM and their continued perceived limitation as a lobbying organization (as well as their inability to provide technical input to key decision makers and lead processes that engender decentralization). LGDA did assist AAM organizationally, and the members of the Executive Committee recognized and appreciated LGDA efforts during Year 2 (and said as much during their FORECAST de-briefing). However, for the next step it seems that LGDA needs to make a more determined effort with AAM and one strategy discussed (and agreed in principle by both parties) would involve the secondment of decentralization staff and activities to AAM for Year 3. This would allow AAM to be on the inside of all LGDA activities and both learn new skills and processes and be recognized as a driving force in pushing decentralization forward.

As a result of changes in the treasury system and the disbursement of the unconditional transfer on a cash flow basis, the Government and local governments have realized they have very little skill in this area. LGDA should work on an effort to capacitate both central and local government staff in cash management skills to facilitate this new system.

During Year 2 the Government of Albania started a new competitive grants program. This would provide larger amounts for capital projects based on established and transparent criteria. (LGDA assisted in development of this program and the criteria/process.) Also, during the year, the UNDP announced a grant program that several target cities hoped to access. In both cases, LGDA found that target cities had a weak understanding of how to prepare a grant application. In addition, several target cities have expressed

an intense interest in learning more about this skill. Therefore, LGDA will seek to offer a special training course on applying for grants.

Some relevant comments from trainings and discussions on the successes of Year 2 include:

- New way of drafting the budget, e.g., inviting stakeholders in the draft budget and modifying the draft until budget approval;
- Special emphasis on the SIAP process and methodology in improving services, setting objectives and drafting a budget for selected services based on performance measures;
- Practice public reporting, use local media and local papers to make the budget transparent for the local community;
- Use of some participatory budgeting techniques; special emphasis on the methods requesting citizen input – survey and TOR;
- Training and workshops support the exchange of experience between the municipalities
- The collaboration of local community, civil society organizations and donor support in repairing roads and rehabilitating green areas
- SIAP as a process is a success on its own as it values citizen feedback and involves citizens and CSO leaders from the earliest phases of the process and make them an integral part of the entire activity;

Specific Cities provided other specific lessons learned:

- Vora – upon compiling civil society organizations, started very regular citizen commission meetings informing and consulting citizens as issues arise;
- Lezha – started the process very skeptical but looking at the tangible results, selected another service: “At the beginning we thought SIAP was a mere document to fill in data and then archive; but now we see that it is a real Action Plan and we need to select another service for improvement with this methodology” (deputy mayor).
- Fier – is building upon SIAP experience by combining participatory budgeting elements and SIAP methodology for participatory budgeting in 2007;
- Pogradec – civil society organizations (formerly trained by LGDA) conduct activities to improve community participation in decision-making
- Erseke – Staff trained by LGDA are cited as more professional, independent and able to draft real action plans for implementation and capable of effectively involving citizens and CSOs. The budget is technically more clear and citizen oriented. Moreover, citizens are assisting in city service delivery by maintaining shrubbery, trees and flowers in a rehabilitated green area.
- Peshkopi - The transparency of funds used for improving city services has increased. Fund allocation has been monitored by citizens or their representatives in citizen commissions. From meetings, experiences shared from other partner local government units, we were able to allocate funds and increase green surfaces, light bulbs in neighborhoods, purchase of equipment for the greenery service as well as purchase of dumpsters for garbage collection.

Notes from SIAP WG Members:



- Performance measurement concepts materialized through SIAP methodology assisted us in terms of where to focus on one's work to provide better services to the community. Organizing services through SIAP has been very productive:
 - This method helps taking a closer look at the problems and people and, therefore, the solution.
 - Service analysis and planning based upon this methodology and indicators leads to a real and certain result.
- The trainings have been necessary as they have provided a new vision in the management of public services and beyond. They have also provided us with the opportunity to exchange experiences with colleagues from other municipalities of the region and beyond and/or learn from experiences of successful cities. Additionally, they have helped us improve our work and relationship with the community.
- The work concerning community awareness and for taking into consideration of their opinion is a value which we have learned in the frame of LGDA trainings.

Mayors and Deputy Mayors:

- Deepening of decentralization process has to do, first of all, with the application of European Charter of Local Self-Government; the subsidiary principle assumes not only the transfer of competencies and funds from central to local government, but also the necessary administrative capacity building regarding the administration of these funds and the competencies. Concerning the latter, we pass our congratulations and thankfulness to the Urban Institute and USAID. (mayor, deputy mayor)
 - We applied for the first time, through SIAPs, the improvement of the cleaning service as a method of participatory drafting and approval.
 - We measured the performance of the municipality and rated citizen satisfaction regarding services that we provide to the community.
 - As a result of the cooperation of our administration with LGDA Program there has been a significant improvement of administrative capacities and pro-action has started based on these principles.
 - Would like a manual of successful practices with more elaboration on cases and practices.

City Council:

- Trainings have been useful for the Chairmen of Municipal Councils, for the Secretaries of Municipal Councils and for the council members.
- They have served to improve the commissions' activities, conducting of meetings, and the overall efficiency of the council activity.

- We are receiving the initial results and effects, although still limited, therefore we thank you for the organized way, with which you are addressing the council.
- Council meetings alone do not suffice; when we took the road to come to the trainings, we realized that we really are council members.
- Trainings provide an opportunity to share experiences with other colleagues from other cities.
- As a result of the program, it is the first time we notice serious work and modern techniques for cleaning service in Gjirokastra. I have visited several European cities and, as a council member, I feel good that time has come also for my city to work and apply contemporary techniques for the services and I would like to be one of the most active members of the WG.
- SIAP training has increased my knowledge concerning municipality performance and it has helped me to learn what to request from the administration.
- LGDA is the only program offering trainings to councilors in a sustainable way.

SUGGESTED STEPS TO IMPROVE ACTIVITY PERFORMANCE & IMPACT

LGDA needs to continue spreading the SIAP methodology to more and more city departments and more and more city staff within departments. The use of the methodology really seems to be taking hold in a sustainable manner and LGDA needs to continue the process of assistance and education of city staff and council to create the greatest impact.

LGDA received other suggestions from various counterparts as well:

Mayors and/or deputy mayors

- Skills in providing good customer service to citizens is needed. Cities also require training on codes of ethics and relations with the public.
- Laws still seem to conflict with each other. The emerging new laws need better cross-checking with existing ones to find out areas or aspects where they conflict with each other.
- There is need to work on sub-legal acts for Law No. 8652, which is the key law for the organization and functioning of local government.
- There is need to expand decentralization even further and bring all services as close as possible to the citizens, because there are cases when citizens ask the municipality to solve problems, upon which the municipality does not have any authority.
- Assistance in administering the SBT/SPT once transferred to local governments
- Provide assistance on maintenance of educational facilities (several cities have heard about the pilot project on school facility maintenance and want to get involved)

Councilors

- It would be useful if training could be conducted with all council members separately for each city, because the knowledge, which that limited number of council members attending the training gain, is not conveyed to the others.
- There is need for trainings with council members on public hearings or on consultations with the community regarding budget and other issues, because they do not ever get organized.
- Training on the functions of different council commissions



- Exchange of experience with other successful municipalities.
- Training with council members in relation to revenue management.
- Training on the municipal council role. Often the council role ends with making the decision and there is no follow-up and ongoing monitoring of processes and performance of the administration.
- Training with council members in terms of drafting and setting the priorities.
- Contacts and trainings with leaders of main parties across the districts regarding election of council members (education, council professional structure, etc.).

SIAP Working group members

- All trainings must have mayor's participation as a condition
- SIAP process should be more all-inclusive (more councilors, citizens in the WG)
 - Roll out SIAP methodology in other departments
 - The WG should operate better; they need better sharing of information internally with other city staff members, and externally with the community
 - Simple and understandable reporting; including numeric calculations
- Improving administrative procedures requires clear-cut indicators and a contact person or unit in the City, e.g. the information office;
- Make SIAPs for Administrative Procedures part of City Strategic Plans;
- Assist in setting a sustainable WG in the City to design and implement the reforms in Administrative Procedures;

LGDA will continue to refine its activities and programs

MONITORING AND EVALUATION

The LGDA operates within Intermediate Result (IR) 3 of USAID/Albania, which states:

"Increased Independence of Local Administration from the Central Government"

The indicators LGDA uses to measure progress against this IR are:

1. Total Local Government Expenditures Under the Full Local Government Discretion at End of the Fiscal Year
2. % Increase in Revenues from Local Taxes and Fees, year-to-year

In addition, LGDA uses USAID/Albania's 2 main Sub-IRs as the focus of its work. These Sub-IRs and the indicators to measure progress are as follows:

- Fiscal and Administrative Authority Effectively Decentralized
 - Number of Paragraphs of the European Charter on Local Self-Governance with which the Laws of Albania are in Compliance
 - % Value of All Transfers to Local Government by Formula
- Strengthened Capacity and Accountability of Targeted Local Governments

- Percent of Citizens that Rate Satisfaction with City Services as High or Very High
- Percent of Citizens Surveyed Who Say They Have a Great Deal of Trust and Confidence in the Local Government's Ability to Solve Local Problems

LGDA will report to USAD/Albania officially on these indicators in September/October as part of the local Mission's PMP. However, LGDA already has some significant findings that show the impact of the program.

Under the first indicator for the IR, "Total LG expenditures Under Full LG Discretion", the couple of years had been fairly static. At the end of 2003 it was 43% and at the end of 2004 it as 41.3%. However, for 2005 it jumps to 47% and this does not include the significant changes that occurred in the 2006 budget. It should easily exceed 50% when 2006 data becomes available next spring (for the final report).

Moreover, the second overall indicator, "% Increase in LG Taxes and Fees" also shows great progress. For 2005, purely locally-generated revenues rose by 11% over 2004. This demonstrates that more and more LGs are enacting local taxes and fees as a source of revenue for exclusive functions and investments. LGDA expects this trend to continue. It's positive nature reflects the rising interest in borrowing and the likelihood of successful payback of loans. More and more LGs are showing positive cash/budget positions.

On the remaining two decentralization-related indicators, Albania remains in compliance with 26 of 27 paragraphs of the European Charter on Local Self-Governance. In terms of the value of transfers to LGs based on a formula, that percentage increased from 25 to 28% in 2005. Again, based on the many reforms (and increased funding to LGs) approved in the 2006 budget, this number should again significantly increase next year.

One final note of significant interest to USAID, the EU supported National Strategy for Development and Integration (NSDI) support program, which is advising the Prime Minister's office, has decided to use the LGDA indicator on discretion (see above) as the official indicator for decentralization progress in Albania. USAID decentralization work in Albania continues to impact Albania as well as other donors.

The final 2 indicators, under Sub IR 3.2, Strengthened Capacity and Accountability of Targeted LGs, reflect data garnered from the 2005 national Citizen Survey.

<i>Sub IR 3.2 Strengthened Capacity and Accountability of Targeted Local Governments</i>		
<i>Indicator 1:</i>	<i>Percent of Citizens that Rate Satisfaction with City Services as High or Very High</i>	
	FY 2005	FY 2007



% Satisfied with City Services	Service area	Response category	Overall City	Neighborhood	Downtown	TBD
	Water (sufficient amount when you need it)	Usually or always	65%			
	Sidewalk conditions	Good or very good	53%			
	Cleanliness	Clean or very clean	47%	45%		
	Road conditions	Good or very good		40%	74%	
	Parks and Green Areas	Satisfied or very satisfied	36%			
	Street lighting at night	About right		30%		
	Traffic Congestion	Not a problem	16%			
<i>Indicator 2:</i>	<i>Percent of Citizens Surveyed Who Say They Have a Great Deal of Trust and Confidence in the Local Government's Ability to Solve Local Problems</i>					
	FY 2005				FY 2007	
% of Citizens with Trust & Confidence in LG	51.5% ¹				TBD	

For IR 3.2.1, LGDA conducted a national survey on local government during the summer/fall of 2005, the results of which serve as the baseline for this indicator. As you can see, citizen satisfaction results are disaggregated according to a roster of key city services. LGDA will conduct a second survey in winter/spring 2007, at the end of the project, for comparison purposes, allowing LGDA to assess the impact of USAID programming. These indicators are also available for nine target cities.

IR 3.2.2 also derives from the 2005 survey. It establishes the baseline on the trust and confidence citizens have in local government's ability to solve local problems. Again, a follow up survey in 2007 will provide comparative and explanatory data.

Neither of these indicators have an update for this year. Both will be updated next year with the 2007 survey.

ADMINISTRATION

The national elections resulting in a new central Government for Albania created some short-term difficulties for LGDA. LGDA lost several employees to the new Government during September and October. These included:

¹ The percentage measures citizens surveyed who say they have "Very much" and "Somewhat" trust and confidence in LG.

• Sherefedin Shehu	Shkoder Regional Office	Deputy Minister of Finance
• Edlir Vokopola	URI (Subcontractor)	Director, Property Registration
• Genc Rulli	ISB (Subcontractor)	Minister of Economy
• Eno Bozdo	Consultant/Trainer	Deputy Minister of Economy

Some of these appointments ended up in critical government positions that will serve the interests of LGDA and USAID. LGDA had to only replace Mr. Shehu and hired Edvin Puka to work in the Shkoder regional office in December.

Also during Year 2 LGDA hired Sabina Ymeri as Fiscal Decentralization Specialist, key personnel for the project. During Year 1, LGDA lost Albana Dhimitri and the upcoming national elections made finding a replacement extremely difficult (as many people were expecting a change and wanted to work in the new administration, and current office holders could not leave their jobs). In July LGDA hired Ms. Ymeri on a temporary basis to see if she could perform these duties satisfactorily. She impressed both LGDA and USAID and was hired permanently in November 2005.

The Urban Institute also underwent a structural change during the project year. Dr. Annette Brown was hired as Director of the International Activities Center (IAC) at The Urban Institute. IAC Deputy Director Katie Mark became the project manager for LGDA in Washington, replacing Francis Conway. Mr. Conway continued in his capacity as chief technical advisor on the decentralization component of LGDA. Ms. Mark visited Albania twice to confer with the Mission and the local project team. She also prepared a "Project Management Review" at the request of the Mission Director.

DELIVERABLES AND REPORTS

LGDA Year 3 Workplan
 Quarterly Reports (Q3 and Q4 2005 and Q1 2006)
 2005 National Citizen Survey on Local Governance

PROBLEMS OR DELAYS AFFECTING THE TASK ORDER PERFORMANCE

LGDA proceeded forward in Year 2 with very few delays. LGDA successfully completed activities carried over from Year 1 (the civil society assessment, training for civil society on local governance, the assessment of national level organizations involved in local governance and activities aimed at developing new decentralization policy initiatives).

National elections in July 2005 resulted in a new central government. However, final results were not confirmed until September so it was not until September before a new government really took office. Therefore, a few decentralization activities (senior leader dialog and Parliamentary dialog) were delayed by a month until national counterparts existed. However, as soon as the new government was in place, LGDA moved quickly (and extremely successfully – see above) to complete these activities.



The pilot project on health and safety standards for secondary school maintenance also faced a similar issue. Local government action moved as scheduled and expected. However, massive turnover in the Ministry of Education & Science resulted in some delays for actions on their part, while LGDA worked to develop their capacity and familiarity with the pilot project. These did not adversely impact the overall timing so the project remains on schedule.

LGDA worked with AAM, local governments and the Ministry of Finance on “Expanding Local Fiscal Authority” by transferring administration of the Small Business Tax/Simplified Profit Tax (SBT/SPT) to local governments. This received general approval by all parties involved. The Year 2 workplan indicated inclusion of this policy in the 2005 Budget (December 2005). However, the Government decided to wait and enact the change later in the year. LGDA assisted the Government to gather more input from local governments (through a series of regional meetings – see above) before drafting the legislation. The Council of Ministers finally approved a draft in July and sent it to Parliament. LGDA will continue working in Year 3 for adoption of this policy.

The Year 2 workplan envisioned a study by AAM on turnover following local government elections and programming to minimize it for the upcoming local government elections. This project was originally scheduled with the thought that local government elections would occur in October/November 2006. However, when it became obvious those elections would be delayed, AAM and LGDA thought the study and the subsequent programming needed to be delayed as well so the timing is closer to the actual elections (to maximize impact). This activity is now scheduled for Year 3 in order to have the timing provide the best opportunity for a successful intervention.

The final delay involves the Local Government Fiscal Policy Report originally scheduled for late Year 2. Due to a reduction in the task order, LGDA dropped a planned national conference in Year 2 that would have considered this report. Moreover, the successful policy reforms in fiscal and administrative decentralization resulted in significant changes in the treasury system and the financial management systems and practices at the local level. Therefore, LGDA will continue to compile data and prepare the report in Year 3 and release it at the closing conference.

SPECIFIC ACTION REQUESTED

None at this time.